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Globe Security Systems, Inc.
1970 Annual Report

Financial Highlights

	1970	1969	1968	1967	1966
Revenues	$40,842,639	37,398,583	33,166,412	28,961,351	25,317,303
Income before Taxes	$ 4,311,775	4,119,208	3,525,233	3,105,838	2,229,509
Pretax Profit Margin	10.6%	11.0%	10.6%	10.7%	8.8%
Net Income	$ 2,134,014	1,968,389	1,552,653	1,523,682	1,153,651
Earnings per Share	$1.07	.98	.78	.76	.58

Board of Directors

Fred R. Sullivan, Chairman
Fred E. Braemer
S. Harrison Dogole
John F. Kidde
Col. James A. McDivitt, USAF
Maurice M. Rosen

Officers

S. Harrison Dogole, President and Chief Executive Officer
M. Bruce Oxman, Executive Vice President
William H. Painter, Senior Vice President
John B. F. Dillon, Vice President
Edgar R. Fettinger, Vice President
Richard A. Lukins, Vice President–International Operations
John J. Hensel, Treasurer
Hugh H. Shull, Jr., Secretary

To the Stockholders

We are pleased to report that Globe Security Systems, Inc. attained record revenues, net income and earnings per share in 1970.

Total revenues for 1970 increased to $40,842,639 from $37,398,583 in 1969. Net income increased to $2,134,014 in 1970 from $1,968,389 the previous year. Earnings per share were $1.07 in 1970, up from $.98 in the year earlier period.

Globe became a public company in June, 1970 when Walter Kidde & Company, Inc. sold 600,000 shares of Globe's common stock through a public offering. Kidde retains 70% ownership of Globe. In November, 1970, Globe's common shares commenced trading on the American Stock Exchange under the ticker symbol GSS.

Globe's profit growth in 1970 was generated almost entirely by internal effort. Interest income was diminished in 1970 when short term interest rates declined sharply in the second half.

Our focus on internal controls, which has made Globe an industry leader in pretax profit margins, was intensified in 1970, with emphasis on cost and receivables control. A computer program encompassing most salient financial and accounting areas was developed last year with Kidde Computer Services Corporation, a subsidiary of Walter Kidde, for improved operating efficiency in the future.

We expanded our sales force and inaugurated a stronger national sales system. Globe's business, which has developed over the years on a regional basis along the East Coast, and in the Southeast, the Southwest and the West Coast, will be expanded into the Midwestern sectors of the United States and in other countries.

Approximately 90% of Globe's business today is derived from uniformed guard services. Globe also supplies mobile security patrols, investigative services, canine patrols, polygraph examinations and electronic security devices.

The primary market for Globe's uniformed guard service is in industrial and commercial fields, and the market demand continues to grow more rapidly than the national economy. Globe also anticipates additional sales growth from greater penetration of non-industrial markets, including universities and colleges, hospitals and other health institutions, recreational facilities, resort areas and sporting events.

We also expect to pursue an active acquisition program, with emphasis on investigation-oriented companies. Profit margins of investigative companies are usually higher, and expansion in this area should help Globe maintain its traditionally high profit margins.

In the four years since 1966 Globe's revenues have increased by 61% and net income has increased by 85% (see Financial Highlights, opposite page).

To the more than 9,000 men and women of Globe, who have been a major ingredient in our past successes, we say thanks. With their continued help, and with the interest and confidence of our stockholders, we look forward to the future with great hope.

Cordially,

Fred R. Sullivan
Chairman
of the Board

S. Harrison Dogole
President
and Chief Executive

March 24, 1971

Globe Security Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

Assets	December 31 1970	1969
Current Assets:		
Cash	$ 508,732	$ 443,079
Accounts receivable, less reserves of $246,789 in 1970 and $228,783 in 1969	7,378,206	6,516,432
Receivable—Affiliate	2,030,397	2,594,255
Prepayments, etc.	872,983	783,479
Total current assets	10,790,318	10,337,245
Land, buildings and equipment, at cost:		
Land	49,709	49,709
Buildings	182,054	181,072
Equipment	858,726	756,794
	1,090,489	987,575
Less—accumulated depreciation	631,081	588,944
	459,408	398,631
Excess of cost over related net assets of businesses acquired	321,628	238,146
Other assets	29,798	33,789
	$11,601,152	$11,007,811

Liabilities and Stockholders' Investment		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,654,115	$ 1,637,250
Accrued taxes on income	1,371,202	1,401,202
Current installments of long-term debt	112,169	87,044
Total current liabilities	3,137,486	3,125,496
Long-term debt, less current maturities	128,911	181,574
Stockholders' Investment:		
Preferred stock—$1 par value; authorized 3,000,000 shares	—	—
Common stock—$1 par value; authorized 10,000,000 shares, outstanding 2,000,000 shares	2,000,000	2,000,000
Retained earnings	6,334,755	5,700,741
	8,334,755	7,700,741
	$11,601,152	$11,007,811

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

	For the Years Ended December 31 1970	1969
Revenues	$40,842,639	$37,398,583
Payroll and other operating expenses	32,617,983	29,759,095
	8,224,656	7,639,488
Selling, general and administrative expenses	4,057,101	3,694,374
	4,167,555	3,945,114
Other income (deductions):		
Interest income, net	122,125	196,237
Other, net	22,095	(22,143)
Income before taxes	4,311,775	4,119,208
Taxes on income	2,177,761	2,150,819
Net income	$ 2,134,014	$ 1,968,389
Net income per share (Based upon 2,000,000 shares outstanding during both years)	$1.07	$.98

Consolidated Statements of Capital Surplus and Retained Earnings

	For the Years Ended December 31 1970	1969
Capital Surplus:		
Balance at beginning of year	$ —	$ 323,246
Exchange of 867,439 shares of Common Stock, $1 par value, for 100 shares of Common Stock, no par value	—	(323,246)
Balance at end of year	$ —	$ —
Retained Earnings:		
Balance at beginning of year	$ 5,700,741	$ 4,275,545
Net income	2,134,014	1,968,389
Dividend on Common Stock	(1,500,000)	—
Exchange of 867, 439 shares of Common Stock, $1 par value, for 100 shares of Common Stock, no par value	—	(543,193)
Balance at end of year	$ 6,334,755	$ 5,700,741

Consolidated Statements of Source and Application of Funds

	For the Years Ended December 31 1970	1969
Funds Provided by:		
Net income	$ 2,134,014	$ 1,968,389
Depreciation	90,207	105,670
Miscellaneous	3,991	19,444
Total Funds Provided	$ 2,228,212	$ 2,093,503
Funds Applied to:		
Property additions, net	$ 150,984	$ 117,801
Reduction in long-term debt	52,663	87,044
Additional costs relating to businesses acquired	83,482	—
Dividends	1,500,000	—
Increase in working capital	441,083	1,888,658
Total Funds Applied	$ 2,228,212	$ 2,093,503

The accompanying notes are an integral part of these statements.

Auditors' Report

To the Stockholders and the Board of Directors of Globe Security Systems, Inc.:

We have examined the consolidated balance sheets of Globe Security Systems, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1970 and 1969, and the related consolidated statements of income, capital surplus, retained earnings, and source and application of funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Globe Security Systems, Inc. and subsidiaries as of December 31, 1970 and 1969, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Newark, New Jersey
March 17, 1971

Notes to Financial Statements

Principles of Consolidation

Effective March 25, 1970, the Company's Certificate of Incorporation was amended to change the number of shares of authorized capital stock from 2,000 shares of Common Stock, no par value, to 3,000,000 shares of Preferred Stock, $1 par value, and 10,000,000 shares of Common Stock, $1 par value. The 100 shares of old Common Stock which were outstanding at that date and at December 31, 1969 were exchanged for 867,439 shares of new Common Stock. The effect of this change has been reflected retroactively in the balance sheet as of December 31, 1969 by charges to Common Stock, no par value, of $1,000, Capital Surplus of $323,246 and Retained Earnings of $543,193.

The accompanying financial statements include the financial position and results of operations of the Company and its subsidiaries. During 1970 the Company issued 1,132,561 shares of its new Common Stock to its affiliate, Walter Kidde & Company, Inc., in exchange for a number of businesses, in a transaction treated as a pooling of interests. In accordance with generally accepted accounting principles, the 1970 financial statements include amounts for these businesses for the full year, and the 1969 financial statements have been restated to include these businesses.

Transactions with Affiliate

Certain services are provided to the Company by Walter Kidde & Company, Inc. (Affiliate) under a service contract effective January 1, 1970 between the Company and Kidde which is terminable at the option of either party upon 90 days notice. Pursuant to the contract, Kidde provides the Company with general corporate services, including management, financial, legal and other administrative staff functions. Charges to the Company under the service contract are presently made at the rate of $6,000 per month, but the amount of such charges is subject to review and adjustment from time to time.

The receivable from Affiliate bears interest at approximately 1% over the prime rate. Interest earned on this receivable was $85,286 in 1970 and $213,739 in 1969.

The dividend on Common Stock of $1,500,000 took the form of cancellation of receivable from Affiliate.

As of December 31, 1970, 70% of the Company's Common Stock is owned by Walter Kidde & Company, Inc. Under the provisions of certain of Kidde's long-term debt agreements, Kidde is required to maintain control of a majority of the Company's voting stock.

Long-Term Debt

At December 31, 1970 long-term debt consisted of:

4% Promissory Note due in varying annual installments through 1972	$135,000
Non-interest bearing Promissory Note due in semi-annual installments through 1974	59,506
6% Promissory Note due in varying monthly installments through 1984	46,574
	241,080
Less amounts included in Current Liabilities	112,169
	$128,911

The Company's affiliate, Walter Kidde & Company, Inc. is party to certain long-term debt agreements which impose certain restrictions on Kidde and its domestic subsidiaries, including the Company and its subsidiaries. Under the provisions of these agreements, the Company and its subsidiaries are prohibited from making additional borrowings other than from Kidde.

Stock Option Plan

On March 23, 1970, the Company adopted a Stock Option Plan covering a maximum of 100,000 shares of Common Stock. Under the Plan, both qualified and non-qualified options may be granted to officers and key employees at a price which is no less than the market price at date of grant. Qualified options will expire not more than five years from date of grant and non-qualified options will expire not more than ten years from date of grant. On August 13, 1970, 26,700 options were granted at $13.75 per share. Of these, 13,350 options are exercisable after August 13, 1971 and the remainder become exercisable after August 13, 1972.

Depreciation and Amortization

Depreciation charged to expenses amounted to $90,207 in 1970 and $105,670 in 1969, computed principally on the straight-line method. The Company is not amortizing the excess of cost over related net assets of businesses acquired as it is believed to have continuing value.

Taxes on Income

Taxes on income include deferred taxes, principally attributable to certain subsidiaries' use of the "cash basis" for tax purposes. Such deferred taxes amounted to $122,860 in 1970 and $26,179 in 1969.

GLOBE
Security Systems, Inc.

Subsidiaries

Associated Security Agency, Inc.
Palo Alto, California

E. J. Burke Security Systems, Inc.
Philadelphia, Pennsylvania

57 Corporation
Philadelphia, Pennsylvania

Globe Protection, Inc.
New York, New York

Industrial Security Service, Inc.
North Brunswick, New Jersey

Inter-State Bureau of Investigation, Inc.
Baltimore, Maryland

Interstate Security Services, Inc.
and Affiliates
Newark, New Jersey

Interstate Security Services, Ltd.
London, England

Merchants Patrol, Inc.
Charlotte, North Carolina

Merit Protective Service, Inc.
and Affiliates
New York, New York

Plant Security, Inc.
Philadelphia, Pennsylvania

Reliable Sentry Services, Ltd.
Toronto, Canada

Southern Detectives, Inc.
Atlanta, Georgia

Southern Security Devices, Inc.
Atlanta, Georgia

Southern Security Services, Inc.
Atlanta, Georgia

J. H. Sparks, Inc.
Philadelphia, Pennsylvania

Executive Offices
2011 Walnut Street
Philadelphia, Pennsylvania 19103

Corporate Offices
9 Brighton Road
Clifton, New Jersey 07012

Transfer Agent
Bankers Trust Company
New York, New York

Registrar
Morgan Guaranty Trust Company
New York, New York